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SUBJECT: SCENESETTER CABLE: CODEL OBEY AUGUST 5-7

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¶1. (SBU) You will be arriving in a France whose mood is decidedly up-beat. President Sarkozy's energy and determination to meet challenges head-on and break with the past have lifted national morale. His resounding presidential victory May 6 -- notwithstanding the French electorate's decision in the June 17 legislative elections to bolster the Socialist opposition -- has given Sarkozy a broad-based mandate to undertake long overdue economic and social reforms. Sarkozy's larger goals are to adapt France to globalization and to renew the country's confidence in itself as an international actor.

¶2. (SBU) To achieve these goals, Sarkozy is seeking renewed economic growth to reduce France's chronically high unemployment rate (especially for youth) and to win maneuvering room to address the economic and social rigidities that have caused France to languish for a generation. Sarkozy hopes that broad-based reforms -- from taxes and labor markets to university admissions -- will increase productivity, boost competitiveness and reduce unemployment. Although he may yet encounter popular resistance this autumn, the president is off to a fast start. We will watch closely to see how he reconciles his pro-market reform agenda with a more statist approach to issues that include industrial policy, EU competition policy, and proposals for a eurozone "economic government" to temper the ECB's focus on inflation-fighting.

¶3. (SBU) We have gotten off to a good start with the new Sarkozy administration, and turned the page on our differences over Iraq. From the President on down, France's new leaders are pledging a relationship of mutual confidence and continuing close coordination on most of the issues that matter: Lebanon/Syria, Iran, Afghanistan, Kosovo, Russia, Darfur, and counter-terrorism. For our part, Secretary Gates (in inaugurating the Normandy Visitor Center you will also be visiting) and Secretary Rice have sent loud and clear messages about France's importance to the U.S., symbolized most recently by the ship visit by the nuclear carrier Enterprise. This does not mean that the U.S. and France will always agree, or that tone equals substance. Indeed, Sarkozy has continued to make the point that France will continue to develop its own positions based on its own analyses of situations and its understanding of French interests, a case in point being his adamant opposition to Turkish EU membership. However, even when our views differ, the Sarkozy government has indicated an interest and willingness to work closely and pragmatically with the United States.

¶4. (SBU) Since taking office, Sarkozy has already succeeded in a remarkably short time in giving France, and indirectly the EU, a larger voice on the international stage. He was among the first to advocate a simplified EU treaty on

institutional streamlining to overcome France's 2005 rejection by referendum of the EU draft constitutional treaty, and he played a key intermediary role in obtaining the consensus of France's other EU partners. He publicly proposed delaying a decision on Kosovo final status for a few months to give the parties (and Russia) more time to find a solution. He called for a conference on Darfur to coincide with Secretary Rice's visit, and recently obtained the EU's agreement to send a peacekeeping force to Chad. Seeking to break with previous policy, and profiting from his long experience and personal connections in Lebanon, Sarkozy's Foreign Minister Bernard Kouchner fame hosted a reconciliation dialogue among Lebanon's political factions, to include Hizballah. Last but not least, using his wife Cecilia as an emissary, Sarkozy appeared to play a key role -- and stole headlines -- in the release of the Bulgarian nurses and Palestinian doctor held by Libya in connection with HIV/AIDS.

¶5. (SBU) Although Prime Minister Fillon officially presented the government's plan to the Parliament in early July, it is clear that it is Sarkozy who will manage many of the key dossiers in the new French government. Labor market reform, tax changes that encourage overtime work beyond the 35 hour work week, mortgage deductibility to encourage home homeownership, further pension reform, smaller government, the provision of minimum services during strikes and possible changes to France's collective bargaining system are highlights of the policy initiatives that are either underway, or in the offing. The outcome of this process could well determine whether the United States has a newly confident, dynamic, forward-looking economic partner in France.

¶6. (SBU) The Sarkozy government is also shaking up GOF

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economic policymaking structures. Following through on a campaign promise the president has created a "super ministry" of sustainable development by combining the former ministry of ecology with energy, transport and regional planning directorates hived off from other ministries. The goal in part is to internalize environmental and sustainable development concerns in policymaking, though it's too early to tell whether the change is having its intended effect. Nevertheless it does signal that Sarkozy wants his government to focus on the nexus of environment )- notably climate change -- and the global economy. Sarkozy signaled as much during his election night victory speech when he called on the United States "to take the lead" in the fight against global warming.

¶7. (SBU) Sarkozy welcomed President Bush's statement on a proposed new climate change framework in May, but he continues to advocate binding constraints on greenhouse gas emissions as a necessary ingredient of a post-2012 Kyoto follow-on agreement. He has also called for the imposition of a "carbon tax" on imports from countries that "do not respect environmental standards" as a means of defending Europe's CO2 emissions trading system (ETS). Our interest has been to emphasize our desire to intensify collaboration with France in developing climate-friendly energy technologies, in sharing approaches to energy efficiency, and by underscoring the dynamism of the private sector in attacking climate change.

¶8. (SBU) While keen on introducing market-friendly domestic reforms, Sarkozy is not shy about articulating a strong role for the state on French industrial and competition policy, and in promoting national or European "champions." As finance minister he helped to shape the French government's bailout of Alstom, and subsequently defended the policy before a critical European Commission. Sarkozy's advisors tell us the experience forged the president's view of EC policy on state aid and competition as being excessively dogmatic.

18. (SBU) Sarkozy has also made it plain (by attending the July 9 Eurogroup meeting of Finance Ministers) that he wants France )- and member states generally -- to play a more active role in coordinating economic policy. To that end, Sarkozy has asked Minister of Finance Christine Lagarde to work with partners to create an "economic government" of Europe as a vehicle for engaging in dialogue with the ECB. Enjoying broad political support for his views at home, Sarkozy seems unperturbed by the criticism he's attracted elsewhere in Europe for his implied criticism of the ECB and euro exchange rate policy. Sarkozy's appearance at the July 9 Eurogroup finance ministers meeting also underlined his personal commitment to tax cuts that may help make France's economy more dynamic over the longer term, but that will push the target date for a balanced budget from 2010 to 2012. Sarkozy was more successful in arguing for the candidacy of former Socialist Minister of Finance Dominique Strauss-Kahn to become IMF Managing Director.

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